

NEWSLINE

Savings Plus Program

2nd Quarter 2007

New Index Funds Join Lineup

On Aug. 8, Savings Plus adds three new index funds to our investment lineup in categories where we currently don't offer index funds: international stocks, small-cap stocks, and mid-cap stocks.

The new options address a growing demand from our participants for index funds. With these additions, our new lineup will include five index funds, including the two we already offer (in the large-cap stock and bond categories).

The three new funds will be managed by Northern Trust Investments, N.A., selected through the State's competitive bid process.

What are index funds?

Index funds seek to match the overall performance of the market or some segment of it by investing in all the companies that comprise that index. For instance, the small-cap index fund we're adding seeks to match returns of the Russell 2000 Index, which consists of 2,000 small U.S. companies. The mid-cap index fund seeks to match returns of the Russell Mid cap Index. The international index fund seeks to match returns of the MSCI-EAFE Index, comprised of international companies in developed countries.

Index funds use "passive management" to obtain their objective. As the label indicates, passive management requires little management other than investing in the same companies that are part of the market they aim to match. So, the manager of the Large Cap Index Fund will select companies that are part of the Russell 1000 Index. In contrast, "actively managed" funds require research and active decisions to select the companies in their fund. For this reason, index funds generally have lower fees than actively managed funds.

Small Cap Funds

Small company funds involve increased risk and volatility.

International / Emerging Markets

International investing involves additional risks; including currency fluctuations, political instability, differences in accounting standards and foreign regulations.



Inside this issue:

New Index Funds Join Lineup	1
New Management For Three Funds.....	2
SPP Overhauls Its Web Site.....	3
Invest Your Pay Raise	4
SPP Brochure in the Mail	4
Investment Fund Update	4



New Management For Three Funds

Three of the funds in our investment lineup will undergo management changes effective Aug. 8. Savings Plus selected the new fund managers using the State's competitive bid process, which took into account management fees, historical performance, and investment strategy.

Northern Trust Investments, N.A. has been selected to manage our two existing index funds, replacing CalPERS (which managed our Large-Cap Index Fund) and Vanguard Group (which managed our Bond Index Fund).

Two companies — AllianceBernstein, L.P. and McKinley Capital, Inc. — will replace Philadelphia International Advisors, L.P. as co-managers of our actively managed International Fund. In addition, we are allowing the new managers of this fund to invest a small portion in “emerging countries,” such as China, Russia, Brazil, and Poland. Increasingly, professional fund managers and large institutional investors are shifting money into emerging countries to take advantage of diversification and estimated higher performance over the foreseeable future.

If you've invested in any of these three funds, you don't need to take any action. Your money will continue to be invested in the same asset class, with the same investment objectives. However, we mailed a letter to everyone who holds investments in these funds to describe what to do if you prefer to move your funds to other choices from our lineup.

Before you invest in any fund, you should always consult its fact sheet or prospectus, available on our Web site or by phone. **The fund fact sheet or prospectus contains this and other important information. Read the fact sheet or prospectus carefully before investing.** For online access, go to www.sppforu.com and look for Prospectuses/Fact Sheets under Quick Links. To order by phone, call 866-566-4777 (toll free).

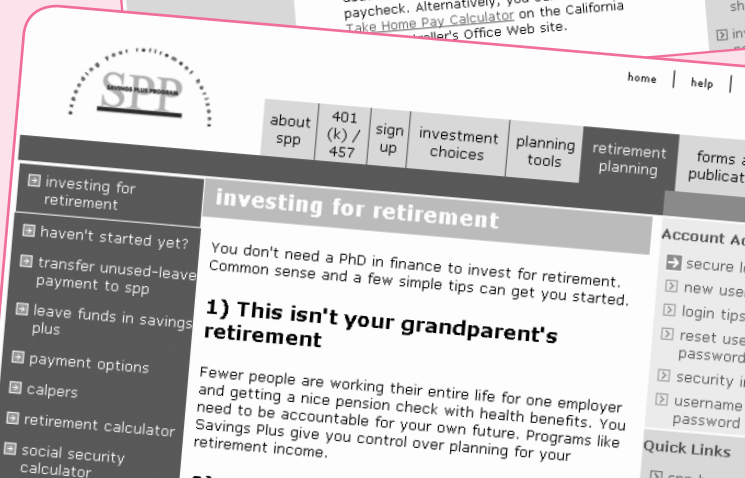
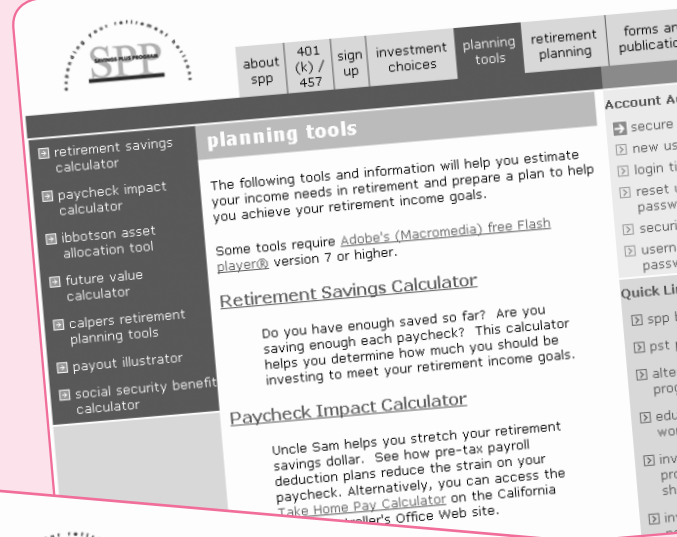
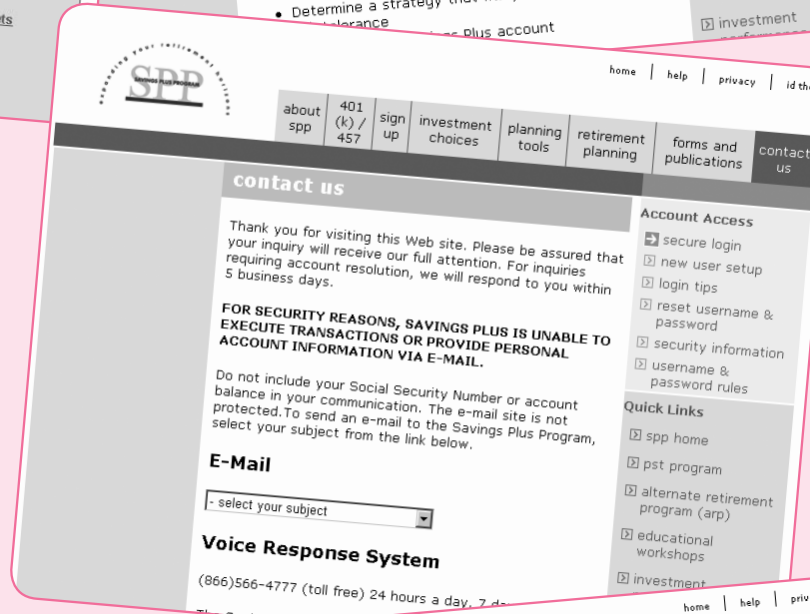
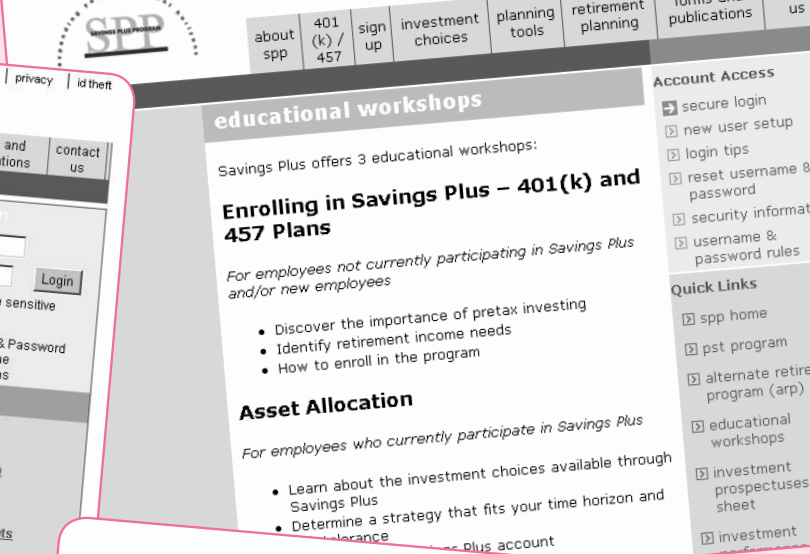
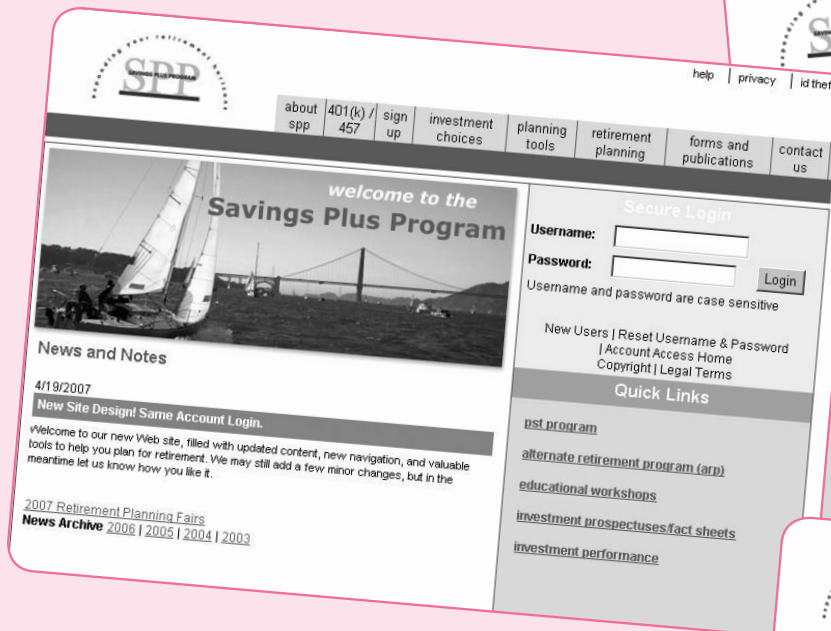
SPP Overhauls Its Web Site

If you haven't seen our Web site lately (www.sppforu.com), you're in for a pleasant surprise on your next visit.

Through collaboration with Nationwide Retirement Solutions, we've redesigned the site to make it easier to find what you're looking for. In addition to a fresh new look, the changes include:

- A new main-page menu with well-organized links
- New tabs across the top that better identify content associated with that topic
- "Quick Links" to sign up for SPP's workshops and access fact sheets, prospectuses, and quarterly investment performance reports
- Revised content written in "plain English"
- New "Contact Us" page you can use to email us on a variety of common issues pertaining to your account, investments, and other SPP topics

We'd appreciate your feedback on the new site. It will help us in our continuing efforts to make sure it serves your needs. To send us your comments or questions, please use the new Contact Us tab (top right of the main page at www.sppforu.com).



Invest Your Pay Raise

Whenever you receive an increase — whether it’s a cost-of-living increase this July, a merit salary adjustment, step increase, or promotion — consider “paying yourself first.”

How? It’s simple: raise your deferral to your Savings Plus account by the amount of your pay increase.

All income you put into your SPP account is non-taxable until you withdraw it. By the time you begin withdrawing funds, normally during retirement, you’ll probably be in a lower tax bracket. **Payments made directly to you will be reported as ordinary income.** Putting this money away for retirement saves you money on taxes.

The maximum deferral limit for 2007 is \$15,500 per plan. (If you’re 50 or older, you may contribute an additional \$5,000 per plan.) So, for example, if your annual salary is \$60,000 and you defer \$15,500 into your SPP account, you’ll only be taxed on \$44,500 of your income.

To see how your take-home pay is affected by different deferral amounts, try the payroll calculator on the State Controller’s Web site. We provide a link to it from the SPP Web site (www.sppforu.com). Click on Planning Tools, scroll down to the link for Take-Home Pay Calculator.

Don’t delay! The sooner you invest your pay raise, the sooner it can go to work building your retirement income.

Investing involves market risks, including possible loss of principal. Some mutual funds may impose a short-term trade fee and be subject to trade restrictions. Read the prospectus carefully.

Investment Fund Update

FUND INVESTIGATIONS

No items to report.

FUND MANAGER CHANGES

Effective April 2, 2007, Mark Waterhouse, the Hartford Investment Management Company investment manager who managed part of the Small Cap Fund – Growth (Hartford Small Company HLS Fund), resigned and is no longer managing the fund. The fund will be managed by Hugh Whelan, who has co-managed the fund since 2005. Previously Mr. Whelan worked for ING, Inc. managing its Small and Mid-Cap funds.

WATCHLIST

There are no funds added to the Watchlist for this quarter.

SPP Brochure in the Mail

Watch your mail in October for a special brochure we’re sending to all SPP participants. It wraps up a year’s worth of improvements to our lineup as we show you how much easier it’s going to be to choose your investments.



State of California
Department of
Personnel Administration

Savings Plus Program
1800 15th Street
Sacramento, CA 95811-6614

How to Reach Us

Hours:

Lobby: 8:00 a.m. - 4:30 p.m.

Phone: 8:30 a.m. - 4:00 p.m.

Web site: www.sppforu.com

Voice Response System:

1-866-566-4777

TTY: 1-800-848-0833

FAX: 1-916-327-1885